

U S WEST, Inc.  
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Washington, DC 20036  
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EX PARTE OR LATE FILED

U S WEST

G. Michael Crumling  
Executive Director-  
Federal Regulatory

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JUN - 7 1994

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

June 7, 1994

EX PARTE

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W.  
Washington, D.C. 20554

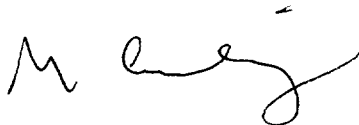
RE: CC Docket No. 93-251: Amendment of Parts 32 and 64 of the  
Commissions' Rules to account for Transactions between  
Carriers and Their Nonregulated Affiliates

Dear Mr. Caton:

In accordance with Section 1.1206 of the Commissions' Rules, U S WEST  
Communications hereby files two copies of materials used in *ex parte*  
discussions held today with Mr. Ken Ackerman and Mr. William Kehoe of  
the Accounting and Audits Division and Mr. Joe Dwyer and Mr. Michael  
Crumling from U S WEST Communications.

Please contact me should you have any questions.

Sincerely,



Attachments

cc: Mr. Ken Ackerman  
Mr. William Kehoe

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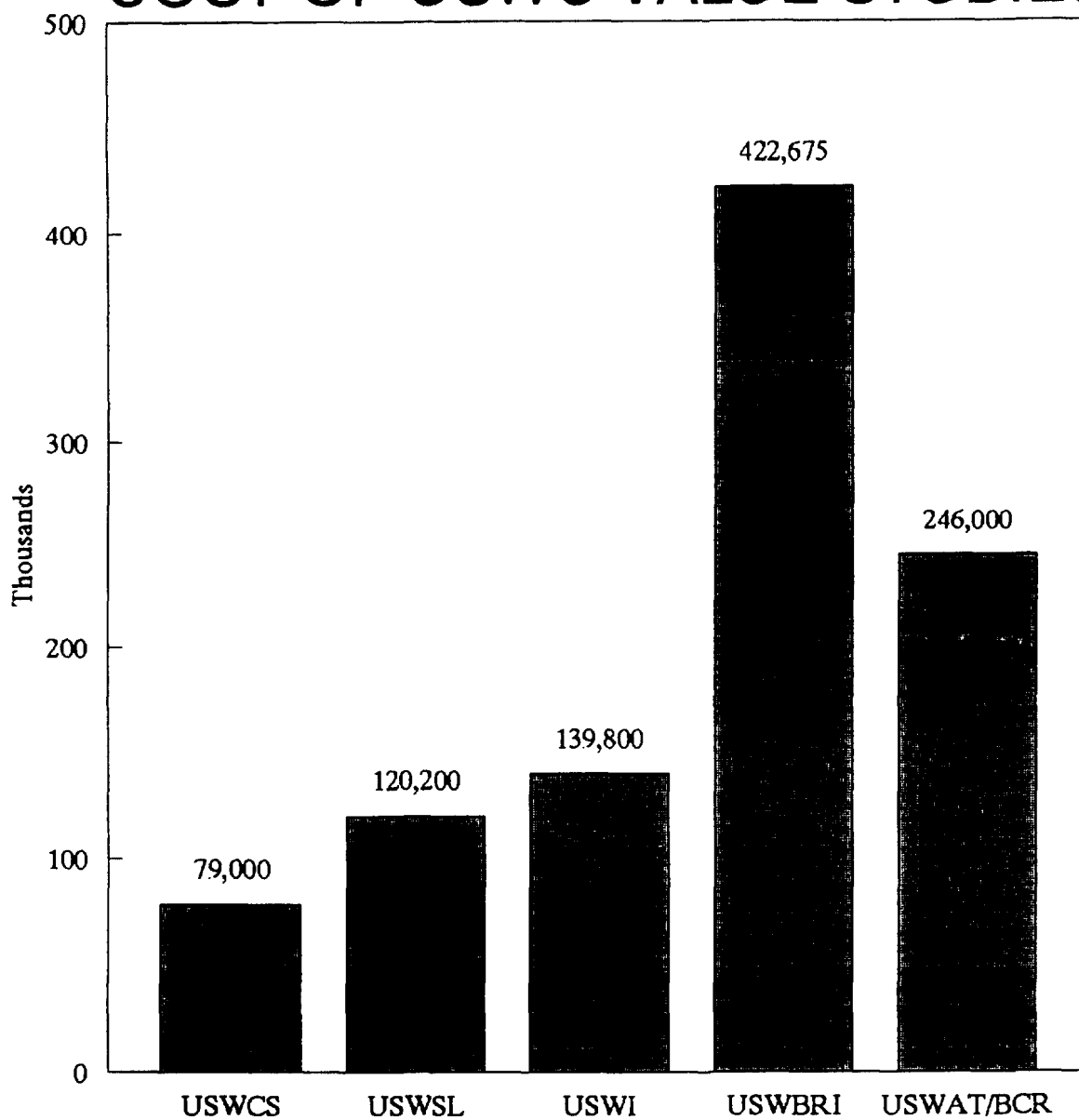
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**U S WEST COMMUNICATIONS HAS PERFORMED VALUE STUDIES ON ITS TOP FIVE AFFILIATES. THE STUDIES PERFORMED WERE AS FOLLOWS:**

- \* U S WEST COMMUNICATIONS SERVICES (USWCS): STUDY PERFORMED BY COOPERS & LYBRAND; JANUARY - MARCH, 1991**
- \* U S WEST SERVICE LINK (USWSL): STUDY PERFORMED BY KPMG PEAT MARWICK; FEBRUARY - DECEMBER, 1990**
- \* U S WEST, INC. (USWI): STUDY PERFORMED BY DELOITE & TOUCHE; AUGUST - DECEMBER, 1989**
- \* U S WEST BUSINESS RESOURCES (USWBRI): STUDIES PERFORMED BY COOPERS & LYBRAND; MAY - SEPTEMBER, 1988 AND AN UPDATE MARCH - OCTOBER, 1990**
- \* U S WEST ADVANCED TECHNOLOGIES/BELL COMMUNICATION RESEARCH (USWAT/BCR): STUDY PERFORMED BY COOPERS & LYBRAND; SEPTEMBER, 1990 - JUNE, 1991**

# COST OF USWC VALUE STUDIES



NOTE: THE COST (\$1,007,675) INCLUDES ONLY PAYMENTS TO OUTSIDE CONSULTING FIRMS. THE USWBRI COST INVOLVED TWO STUDIES.

## U S WEST'S EXPERIENCE WITH MARKET COMPARISON STUDIES

### 1) MARKET COMPARISONS NOT ALWAYS ACHIEVABLE

#### A) OBTAINING MARKET PRICES FOR ALL SERVICES IS NOT PRACTICAL

*"Coopers & Lybrand was retained to assist U S WEST Communications (USWC) in the value study of their affiliations with Bell Communication Research, Inc. (Bellcore) and U S WEST Advanced Technologies, Inc. (USWAT)." They found ... "There are a limited number of organizations that perform work comparable to that of Bellcore and USWAT, and there are no organizations that provide the scope and magnitude of services. Further, the large majority of organizations that perform comparable work do so only for internal use. As a consequence, obtaining market prices for assessing the value of Bellcore and USWAT was not an alternative." (Executive Summary, Page 1)*

*In addition they found that "The value of services received from Bellcore and USWAT include both tangible and intangible benefits. The full range of tangible benefits cannot reasonably be reproduced using marketplace alternatives. Further, the intangible benefits are not economically obtainable (considering cost and time) from non-affiliated organizations." (Executive Summary, Page 1)*

*Touche Ross & Co. was retained by U S WEST Communication (USWC) to evaluate the cost of the activities performed by its parent, U S WEST, Inc. (USWI). They concluded that "certain activities, such as elements of corporate finance and accounting, legal, and treasury services, would not lend themselves to external performance due to the need to maintain close oversight and control or because of the nature of the activity." (Executive Summary, Page I-5)*

*In 1991 KMPG Peat Marwick was retained to assess the value of services provided by Service Link to U S West Communications (USWC). They determined that "It is clear that a market for operator services does exist, but market price information for that market is extremely difficult to obtain....This is no doubt due to a variety of factors including: the competitive nature of the industry, the time and effort required to complete the case study portion of our survey; and the lack of an incentive (i.e., a formal RFP) to provide information."(Value Study, Pages VII.4-5)*

## **B) AVAILABLE MARKET PRICES MAY NOT BE COMPARABLE**

*In 1991 Coopers & Lybrand was retained to assess the value of the services provided by U S WEST Communications Services, Inc. (USWCS) to U S WEST Communications, Inc. (USWC). They found that "Based on our alternate provider analysis, we were able to confirm that there are organizations that provide telecommunications services marketing. However, based on the project scope, we were unable to determine if these organizations would provide the full range of services comparable to USWCS. Therefore, we could not confirm that these firms represent alternate providers." (Executive Summary, Page 5)*

## **C) STUDIES MAY NOT BE REPLICABLE**

*"In 1988 Coopers & Lybrand was retained to conduct a pricing study with the purpose of comparing the prices of services supplied to Pacific Northwest Bell (PNB) by U S WEST Business Resources, Inc. (USWBRI)...In March, 1990 Coopers & Lybrand was retained to update the study... It was recognized that the major management service companies who participated in the 1988 study would be unwilling to provide the same level of effort and detail as they provided in the 1988 study." (Executive Summary, Page 2).*

## **2) WHERE MEASURABLE, AFFILIATE COSTS ARE LESS**

*"...the total of all service items to be obtained from an outside provider amounted to \$54.0 million." (out of a total of all service items of \$128.0 million ... parens added for clarity). "The total costs for these functions/services to be performed by outside suppliers amounted to \$92.3 million ..."* (U S WEST, Inc. Executive Summary, Page 1-5)

*"Both USWCS and the independent agents provide marketing services to the major and general customers, even though their marketing focus is different. The comparison within the major/general customer classification indicates that USWCs costs as a percent of compensable revenue is lower than the independent agent costs." (Executive Summary, Page 5)*

**3) STUDIES ARE LENGTHY, COSTLY AND RESOURCE INTENSIVE**

**A) STUDIES INVOLVE OUTSIDE CONSULTANT EXPERTISE**

- \* USWC HAS SPENT APPROXIMATELY \$1 M TO DATE FOR CONSULTANT FEES FOR THE STUDY OF 5 AFFILIATES**
- \* ESTIMATED COST OF STUDIES FOR ALL SERVICES CURRENTLY PROVIDED BY USWC TO AFFILIATES IS \$1 M**

**B) REQUIRE DEDICATED COMPANY PERSONNEL IN AFFILIATE AND USWC**

- \* NEW RULES WILL REQUIRE AN INCREASE IN PERSONNEL TO IMPLEMENT ONGOING STUDIES (APPROXIMATELY 6 AFFILIATED INTEREST PERSONNEL @ \$600,000 ANNUALLY)**
- \* NEW RULES WILL INCREASE AUDIT REQUIREMENTS AND THEREFORE, EXPENSE**

**C) TIME FOR COMPLETION USUALLY 3 - 11 MONTHS**

**4) STUDY RESULTS ARE CONTENTIOUS IN REGULATORY PROCEEDINGS**

- A) INTERNAL GENERATED STUDIES ALLEGED TO BE BIASED**
- B) METHODOLOGY CHALLENGED**
- C) MARKET PRICE RANGE CHALLENGED**



**5) U S WEST'S CONCLUSION IS THAT THE EXISTING RULES  
ARE ADEQUATE AND WORKABLE**

- \* CAM AUDITS HAVE REVEALED NO SIGNIFICANT FINDINGS**
- \* INTERNAL AND EXTERNAL AUDIT FUNCTIONS ENSURE THAT THE FINANCIAL STATEMENTS FAIRLY PRESENT THE MATERIAL CONTAINED IN THE COMPANY RECORDS**
- \* USW IS SUBJECT TO THE OVERSIGHT OF THE 14 STATE COMMISSIONS WITHIN ITS REGION WHICH PROVIDES ADDITIONAL SAFEGUARDS**
- \* USWC HAS TAKEN ADDITIONAL MEASURES (E.G. ESTABLISHED A TECHNOLOGY FAIR COMPENSATION POLICY) TO COMPLY WITH THE FCC'S COST ALLOCATION RULES**

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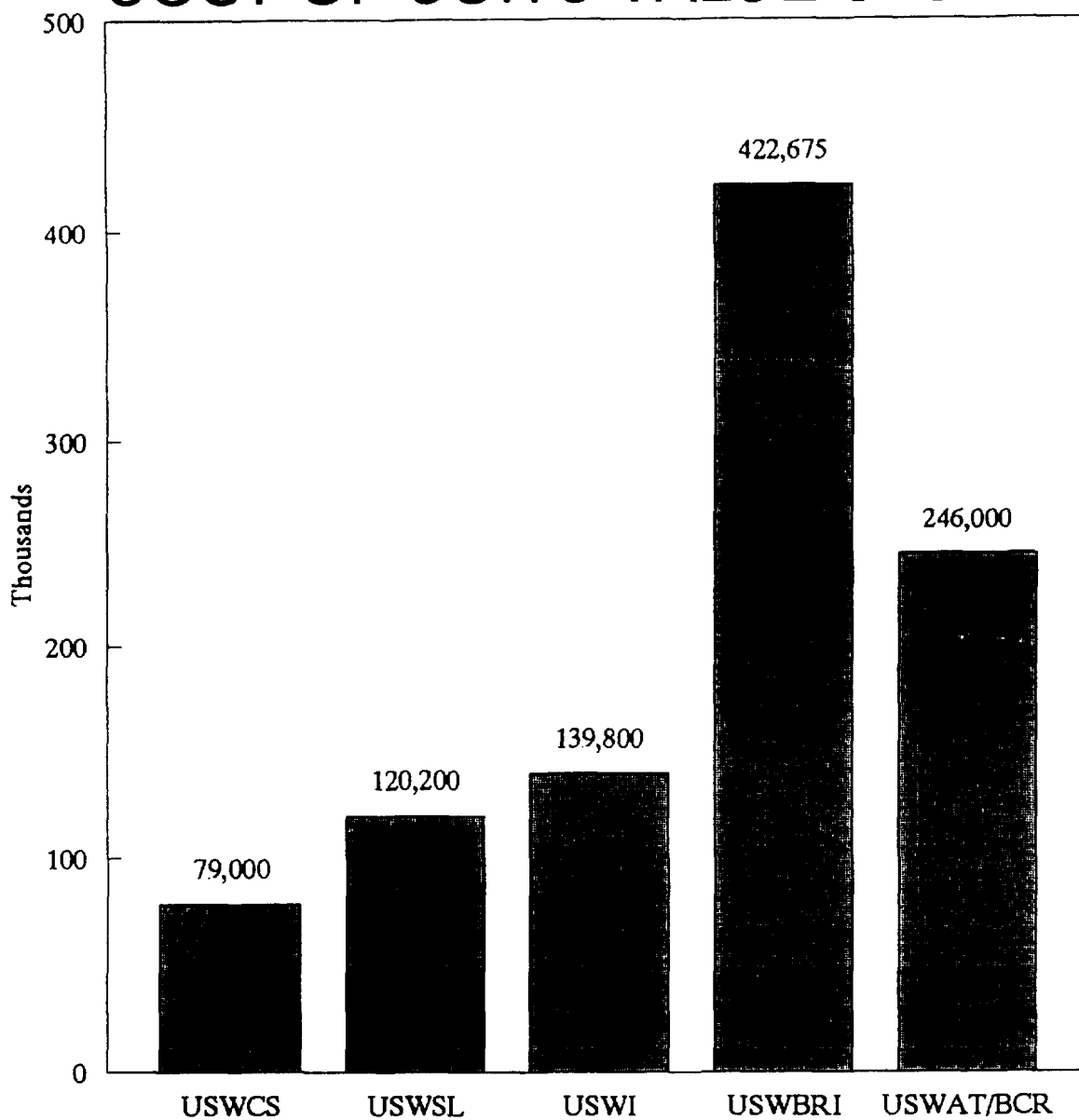
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